

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>FRANKENMUTH CITY-TOWNSHIP COMM.</b>	County <b>SAGINAW</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>3/15/06</b>	Date Accountant Report Submitted to State: <b>4/24/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

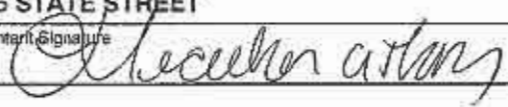
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>GARDNER, PROVENZANO, SCHAUMAN &amp; THOMAS, P.C.</b>			
Street Address <b>4855 STATE STREET</b>	City <b>SAGINAW</b>	State <b>MI</b>	ZIP <b>48063</b>
Accountant Signature 		Date <b>4/24/06</b>	

**FRANKENMUTH CITY-TOWNSHIP COMMISSION**  
Frankenmuth, Michigan

**FINANCIAL STATEMENTS**  
December 31, 2005

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

March 15, 2006

Frankenmuth City-Township Commission  
Frankenmuth, Michigan

We have audited the financial statements of the governmental activities of Frankenmuth City-Township Commission as of and for the year ended December 31, 2005, which comprise the Frankenmuth City-Township Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards prescribed by the State Treasurer. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Frankenmuth City-Township Commission as of December 31, 2005, and the results of its operations for the year then ended in conformity with generally accepted accounting principles in the United States of America and with applicable rules and regulations of the State Treasurer.

The management's discussion and analysis and budgetary comparison listed in the table of contents are not a required part of the basic financial statements, but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplemental financial information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Frankenmuth City-Township Commission. Such information has been subjected to the auditing procedures applied to the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Gardner, Provenzano, Schauman & Thomas, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

FRANKENMUTH CITY-TOWNSHIP COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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Our discussion and analysis of the Frankenmuth City-Township Commission's (Commission) financial performance provides an overview of the Commission's financial activities for the fiscal year ended December 31, 2005

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** – The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The Statement of Activities presents information showing how the Commission's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish between functions of the Commission that are principally supported by contributions from other governments and charges for services. The governmental activities of the Commission include general government, fire protection, cemetery, and debt services.

**Fund financial statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission are governmental funds.



### **Overview of the Financial Statements (continued)**

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Commission maintains four governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Fire, Cemetery and Debt Service funds.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Commission's budget.

### **GOVERNMENTAL-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the Commission, net assets increased by \$158,213 to \$576,122 at December 31, 2005.

The largest portion of the Commission's net assets (45%), reflects unrestricted net assets that may be used to meet the government's ongoing obligations. The second largest portion of net assets (38%) reflects its investments in capital assets (e.g., building, equipment and furniture, land improvements and vehicles) less any debt used to acquire those assets that are still outstanding. The Commission uses these capital assets to provide service to citizens. Although the Commission's investment in its capital assets is reported net of related debt,



FRANKENMUTH CITY-TOWNSHIP COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (continued)**

it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Commission's net assets (17%) represents resources that are restricted for debt services.

**Frankenmuth City-Township Commission's Net Assets**

	2005	2004
Assets		
Current assets	\$ 357,947	\$ 260,534
Noncurrent assets	367,680	356,718
Total Assets	<u>725,627</u>	<u>617,252</u>
Liabilities		
Noncurrent liabilities	<u>149,505</u>	<u>199,343</u>
Total Liabilities	<u>149,505</u>	<u>199,343</u>
Net Assets		
Investment in capital assets-net of related debt	218,175	157,375
Restricted	95,304	14,307
Unrestricted	262,643	246,227
Total Net Assets	<u>\$ 576,122</u>	<u>\$ 417,909</u>

As of December 31, 2005, the Commission is able to report positive balances in all three categories of net assets.

FRANKENMUTH CITY-TOWNSHIP COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (continued)**

The Commission's net assets increased by \$158,213 for the year ended December 31, 2005. This increase was due to the accumulation of funds in the Debt Service Fund to purchase a fire truck in the future.

	2005	2004
Revenues		
Program revenue		
Charges for services	\$ 11,135	\$ 10,330
Operating grants and contributions	236,316	191,078
General revenue		
Unrestricted investment earnings	7,106	2,287
Contributions for debt	125,221	125,221
Total Revenues	<u>379,778</u>	<u>328,916</u>
Program Expenses		
General government	41,329	30,497
Fire protection	99,534	86,408
Cemetery	2,382	2,436
Interest on long term debt	8,346	14,146
Depreciation	69,974	145,606
Total Program Expenses	<u>221,565</u>	<u>279,093</u>
Change in Net Assets	158,213	49,823
Net Assets-Beginning	417,909	368,086
Net Assets-Ending	<u>\$ 576,122</u>	<u>\$ 417,909</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

**General Fund** – The General Fund balance increased by \$6,188. This was a greater increase than anticipated. Hall rentals were \$1,400 higher than expected and an emergency generator purchase was delayed until 2006. Building and grounds maintenance was higher than anticipated for snow removal and a new fire door. A \$4,200 grant was also awarded toward the Fire Department's 125<sup>th</sup> anniversary celebration.

**Fire Fund** – The Fire Fund had an increase in fund balance of \$8,191. Receipts were up significantly due to a Homeland Security Grant of \$26,908 used to purchase a new air compressor for recharging air packs. Maintenance on trucks and equipment was up over expected levels due to equipment beginning to age. Purchase of new air packs was delayed to 2006. \$10,000 was carried over from 2005 toward this purchase in 2006.

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (continued)**

**Cemetery Fund** – The Cemetery Fund had an increase in fund balance of \$2,037. This was due to increased interest income and less than expected labor costs. Cemetery Fund has begun to set aside funds (\$4,000 in 2006) for anticipated land expansion in the future. \$3,000 was carried over from 2005.

**Debt Service** – Fund Balance increased by \$80,997 in 2005 due to planned reserve of \$80,000 toward future unspecified fire truck purchase. \$80,000 was also budgeted for 2006. Funds are invested in a certificate of deposit.

**General Fund Budgetary Highlights** – The Commission made revisions to the original appropriations as approved by the Board. The only significant variance in the first budget versus the final budget was an increase in capital outlay in the amount of \$11,000. The increase was to accommodate construction costs for the glass showcase that houses our 1908 fire engine. The final cost of the project was higher than anticipated totaling \$40,851. It should be noted that this project was paid fully by donations, except for a bronze plaque paid by the Commission.

The only significant variance in the final budget versus actual results was in donation revenue. The variance of \$39,776 was due to contributions from the Fire Department acquired through donations to pay for the glass showcase for the 1908 fire engine.

**Capital Assets** – The Commission's investment in capital assets for its governmental activities as of December 31, 2005, amounts to \$367,680 (net of accumulated depreciation). This investment in capital assets includes equipment and furniture, land improvements, vehicles, a building and construction in progress.

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (continued)**

**Debt Administration** – At the end of the fiscal year, the Commission had total debt of \$149,505 on an installment note for a fire truck.

**Current Known Facts:**

A spatial need study conducted by the City of Frankenmuth and Frankenmuth Township resulted in certain renovations and relocations to take place in the first half of 2006. The Township offices will be relocated to the second floor of the City Hall building. The Township Hall will be renovated to house the Frankenmuth Police Department and a combined Police/Fire Department training facility. The Saginaw County Commission on Aging Senior program will be relocated to the lower level of the City Hall. The Frankenmuth Parks and Recreation Department will be relocated to the former Police Department space.

An upgraded electrical generator will be purchased to provide emergency power for computers and lighting and phones for the Frankenmuth Public Safety Building and the City and Township Government building in cases of power outages.

## **BASIC FINANCIAL STATEMENTS**

Frankenmuth City-Township Commission  
Government-wide Statement of Net Assets  
December 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash	\$ 340,042
Prepaid expenses	<u>17,905</u>
Total Current Assets	<u>357,947</u>
Noncurrent Assets	
Net capital assets	<u>367,680</u>
Total Noncurrent Assets	<u>367,680</u>
Total Assets	<u>725,627</u>
LIABILITIES	
Noncurrent liabilities	
Due within one year	49,836
Due in more than one year	<u>99,669</u>
Total Noncurrent Liabilities	<u>149,505</u>
NET ASSETS	
Invested in capital assets, net of related debt	218,175
Restricted	95,304
Unrestricted	<u>262,643</u>
Total Net Assets	<u>\$ 576,122</u>

The accompanying notes are an integral part of these financial statements.

Frankenmuth City-Township Commission  
Government-wide Statement of Activities  
For the Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets
Governmental activities:				
General Government	\$ 41,329	\$ 11,135	\$ 75,695	\$ 45,501
Fire protection	99,534	-	144,558	45,024
Cemetery	2,382	-	3,100	718
Interest on Long Term Debt	8,346	-	12,963	4,617
Depreciation (unallocated)	69,974	-	-	(69,974)
Total governmental activities	<u>\$ 221,565</u>	<u>\$ 11,135</u>	<u>\$ 236,316</u>	<u>25,886</u>
General Revenues:				
				7,106
				125,221
				<u>132,327</u>
			Change in net assets	158,213
			Net assets - beginning	<u>417,909</u>
			Net assets - ending	<u>\$ 576,122</u>

The accompanying notes are an integral part of these financial statements.



Frankenmuth City-Township Commission  
Combined Balance Sheet-All Fund Types  
As of December 31, 2005

		Governmental Fund Types				
		General	Fire Fund	Cemetery	Debt Service	Totals
Assets						
Current Assets						
Cash		\$ 66,026	\$ 139,322	\$ 39,390	\$ 95,304	\$ 340,042
Prepaid expenditures		6,835	11,070	-	-	17,905
Total Assets		<u>\$ 72,861</u>	<u>\$ 150,392</u>	<u>\$ 39,390</u>	<u>\$ 95,304</u>	<u>\$ 357,947</u>
Fund Balance						
Reserved		\$ -	\$ -	\$ -	\$ 95,304	\$ 95,304
Undesignated		72,861	150,392	39,390	-	262,643
Total Fund Balance		<u>\$ 72,861</u>	<u>\$ 150,392</u>	<u>\$ 39,390</u>	<u>\$ 95,304</u>	<u>\$ 357,947</u>

The accompanying notes are an integral part of these financial statements.

Frankenmuth City-Township Commission  
Reconciliation of the Balance Sheet  
To the Statement of Net Assets  
December 31, 2005

Fund balances of governmental funds	\$ 357,947
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources; and therefore, are not reported in the funds.	
Cost of the capital assets	1,970,686
Accumulated depreciation	(1,603,006)
Long-term liabilities, including bonds payable, are not due and payable in the current period; and therefore, are not reported in the funds.	
Installment note due	(149,505)
Net assets of governmental activities	<u>\$ 576,122</u>

The accompanying notes are an integral part of these financial statements.

Frankenmuth City-Township Commission  
Combined Statement of Revenues, Expenditures  
and Changes in Fund Balance-All Governmental Fund Types  
For the Year Ended December 31, 2005

	General	Fire	Cemetery	Debt Service	Total
<b>Revenues</b>					
City of Frankenmuth	\$ 26,833	\$ 84,191	\$ 2,316	\$ 103,223	\$ 216,563
Township of Frankenmuth	9,086	28,509	784	34,961	73,340
Township of Tuscola	-	3,400	-	-	3,400
Interest	1,538	3,252	1,319	997	7,106
Hall rental	11,135	-	-	-	11,135
Donations	39,776	28,458	-	-	68,234
<b>Total Revenues</b>	<b>88,368</b>	<b>147,810</b>	<b>4,419</b>	<b>139,181</b>	<b>379,778</b>
<b>Expenditures</b>					
Auditing and accounting services	1,460	-	-	-	1,460
Wages and payroll taxes	3,242	22,445	1,891	-	27,578
Operating supplies	257	7,420	-	-	7,677
Insurance	7,374	14,005	-	-	21,379
Telephone	1,157	-	-	-	1,157
Repair and maintenance	11,223	24,623	236	-	36,082
Utilities	9,910	-	-	-	9,910
Gas and oil	-	1,429	-	-	1,429
Capital outlay	40,851	40,086	-	-	80,937
Dues and subscriptions	-	1,032	-	-	1,032
Training and education	-	1,961	-	-	1,961
Outside services	2,286	885	-	-	3,171
Other	4,420	2,912	-	-	7,332
Equipment Rental	-	-	255	-	255
Firemen physicals	-	1,282	-	-	1,282
Re-certification	-	575	-	-	575
Pager rental	-	2,964	-	-	2,964
Professional services	-	18,000	-	-	18,000
Principal payments on note	-	-	-	49,838	49,838
Interest	-	-	-	8,346	8,346
<b>Total Expenditures</b>	<b>82,160</b>	<b>139,619</b>	<b>2,382</b>	<b>58,184</b>	<b>282,365</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>6,188</b>	<b>8,191</b>	<b>2,037</b>	<b>80,997</b>	<b>97,413</b>
<b>Fund balance, beginning</b>	<b>66,673</b>	<b>142,201</b>	<b>37,353</b>	<b>14,307</b>	<b>260,534</b>
<b>Fund balance, ending</b>	<b>\$ 72,861</b>	<b>\$ 150,392</b>	<b>\$ 39,390</b>	<b>\$ 95,304</b>	<b>\$ 357,947</b>

The accompanying notes are an integral part of these financial statements.

Frankenmuth City-Township Commission  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the Statement of Activities  
For the Year Ended December 31, 2005

Net change in fund balances --total governmental funds	\$ 97,413
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets used in governmental activities are not financial resources; and therefore, are not reported in the funds.	
Depreciation expense	(69,974)
Capital Outlay	80,936
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	49,838
Change in net assets of governmental activities	<u>\$ 158,213</u>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

FRANKENMUTH-CITY TOWNSHIP COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

The City of Frankenmuth and the Township of Frankenmuth formed the Frankenmuth City-Township Commission (Commission) on April 5, 1960, to manage jointly owned property and equipment. Both entities appoint two council members to serve as Commissioners. Funding from each entity is based upon a pro rated share of the budget from a percentage calculated by dividing each entity's state equalized value at December 31 by the total state equalized value of the two entities combined at December 31.

The accounting policies of the Commission conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies.

The Reporting Entity

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include only those of the Frankenmuth City-Township Commission (the primary government.) The Commission does not have any component units.

Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the Commission. The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Contributions and other items not properly included among program revenues are reported instead as general revenues.

Fund Accounting

The accounts of the Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance, revenues and expenditures. The various funds are grouped as follows in the financial statements.

FRANKENMUTH-CITY TOWNSHIP COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

Governmental Funds

General Fund – The General Fund is the general operating fund of the Commission. It is used to account for all financial resources except those that are required by law to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative actions.

Debt Service Funds – Debt Service Funds are used to record the payment of debt principal, interest, and related cost.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets, and the Statement of Activities presents increase (revenue) and decrease (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or within sixty days thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for debt principal and interest, which are reported when due.



FRANKENMUTH-CITY TOWNSHIP COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1—Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

The revenues susceptible to accrual are charges for service, interest income and contributions.

Budget and Budgetary Accounting

The Commission uses the following procedures in establishing the budgetary data reflected in the financial statements:

1. An annual budget is prepared by the Commission's Treasurer and is approved at the December board meeting.
2. After approval, the budget is sent to both the City and Township of Frankenmuth for final approval of revenues.
3. The budget is amended throughout the year as needed.

Cash and Cash Equivalents

Cash includes demand deposits and a certificate of deposit. The Commission considers all short-term investments purchased with a maturity of three months or less to be cash equivalents.

Prepaid Items

Prepaid balances are for payments made by the Commission in the current year to provide services occurring in the subsequent fiscal year.

Capital Assets

Capital assets, which include equipment and furniture, land improvements; vehicles, a building, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

FRANKENMUTH-CITY TOWNSHIP COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1—Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

Capital Assets (continued)

Assets capitalized have an original cost of \$1,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Building	15 years
Equipment and furniture	3-12 years
Land improvements	12-20 years
Vehicles	8 years

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Commission or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

FRANKENMUTH-CITY TOWNSHIP COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Cash

The Commission is legally authorized to deposit and invest in the following:

1. In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
2. In certificates of deposit, saving accounts, deposit accounts, or depository receipts of a bank which is a member of the FDIC, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
3. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the purchase date.
4. In United States government or federal agency obligation repurchase agreements.
5. In banker's acceptance of United States banks.
6. In obligations of the state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

All of the funds of the Commission operate through common cash checking and savings accounts. Each fund's share of the balance is reported separately. The bank balance of deposits at December 31, 2005, was \$78,984 with \$5,984 in checking and \$73,000 in a corporate sweep account. In addition, the balance of CD's were \$261,338. The FDIC insures up to \$100,000 in demand deposits; however, separately named accounts of a governmental entity in a single financial institution may not necessarily be treated as separate deposits for the \$100,000 limitation. The FDIC does not insure the Investment Sweep Account.

A summary of cash and investments follow:

	Category			Bank Balance	Carrying Amount
	1	2	3		
Checking	\$ 5,984	\$ -	\$ -	\$ 5,984	\$ 5,704
Corporate sweep	-	-	73,000	73,000	73,000
Certificates of deposit	100,000	-	161,338	261,338	261,338
Totals	<u>\$ 105,984</u>	<u>\$ -</u>	<u>\$ 234,338</u>	<u>\$ 340,322</u>	<u>\$ 340,042</u>

The Commission is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

FRANKENMUTH-CITY TOWNSHIP COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 2—Cash (continued)

The commission's deposits are categorized below according to level of credit risk:

- Category 1 represents the Commission's insured or collateralized deposits with securities held by the Commission or by its agent in the Commission's name.
- Category 2 represents the Commission's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the Commission's name.
- Category 3 represents the Commission's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commission's name.

NOTE 3—Capital Assets

	Balance January 1, 2005	Additions	Disposals	Balance December 31, 2005
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets subject to depreciation				
Equipment and furniture	\$ 76,906	\$ 40,085	\$ -	\$ 116,991
Land Improvements	30,027	-	-	30,027
Vehicles	1,288,872	-	-	1,288,872
Building	488,747	46,049	-	534,796
Construction in progress	5,198	-	5,198	-
Subtotal	<u>1,889,750</u>	<u>86,134</u>	<u>5,198</u>	<u>1,970,686</u>
Accumulated Depreciation				
Equipment and furniture	19,463	9,324	-	28,787
Land Improvements	3,690	2,000	-	5,690
Vehicles	1,028,665	57,049	-	1,085,714
Buildings	481,214	1,601	-	482,815
Subtotal	<u>1,533,032</u>	<u>69,974</u>	<u>-</u>	<u>1,603,006</u>
Net governmental capital assets	<u>\$ 356,718</u>	<u>\$ 16,160</u>	<u>\$ 5,198</u>	<u>\$ 367,680</u>

Depreciation expense was not charged to activities as the Commission considers its capital assets to impact multiple activities and allocation is not practical.

NOTE 4—Long-Term Debt

The following summarizes long-term debt transactions:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Current Portion
Fire truck installment purchase contract, 4.18% interest, due 12/01/08	\$ 199,343	\$ -	\$ 49,838	\$ 149,505	\$ 49,836
	<u>\$ 199,343</u>	<u>\$ -</u>	<u>\$ 49,838</u>	<u>\$ 149,505</u>	<u>\$ 49,836</u>

FRANKENMUTH-CITY TOWNSHIP COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Long-Term Debt (continued)

The annual requirements to pay future principal and interest are as follows:

Year Ended December 31,	Principal	Interest	Total
2006	\$ 49,836	\$ 6,336	\$ 56,172
2007	49,835	4,224	54,059
2008	49,834	2,118	51,952
Total	<u>\$ 149,505</u>	<u>\$ 12,678</u>	<u>\$ 162,183</u>

The interest expense for 2005 was \$8,346

NOTE 5--Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2005, the commission carried commercial insurance for the above listed risks of loss.

NOTE 6--Reserved Fund Balance

The Debt Service fund balance is reserved for future debt service payments.

## **REQUIRED SUPPLEMENTAL INFORMATION**

Frankenmuth City-Township Commission  
Required Supplemental Information-General Fund  
Budgetary Comparison Schedule  
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Revenues</b>				
City of Frankenmuth	\$ 26,834	\$ 26,834	\$ 26,833	\$ (1)
Township of Frankenmuth	9,086	9,086	9,086	-
Interest	350	350	1,538	1,188
Hall rental	9,700	9,700	11,135	1,435
Donations	-	-	39,776	39,776
Total Revenues	<u>45,970</u>	<u>45,970</u>	<u>88,368</u>	<u>42,398</u>
<b>Expenditures</b>				
Auditing	1,100	1,500	1,460	(40)
Computer service	250	250	-	(250)
Wages and payroll taxes	3,220	3,245	3,242	(3)
Operating supplies	3,500	3,750	257	(3,493)
Insurance	7,200	8,650	7,374	(1,276)
Telephone	1,250	1,250	1,157	(93)
Repair and maintenance	6,200	8,600	11,223	2,623
Utilities	9,300	10,050	9,910	(140)
Capital outlay	30,000	41,000	40,851	(149)
Outside services	3,450	3,450	2,286	(1,164)
Other	500	4,500	4,420	(80)
Total Expenditures	<u>65,970</u>	<u>86,245</u>	<u>82,180</u>	<u>(4,065)</u>
Excess (deficiency) of revenues over expenditures	(20,000)	(40,275)	6,188	46,463
Fund balance, beginning	<u>66,673</u>	<u>66,673</u>	<u>66,673</u>	-
Fund balance, ending	<u>\$ 46,673</u>	<u>\$ 26,398</u>	<u>\$ 72,861</u>	<u>\$ 46,463</u>

See accompanying notes to financial statements.



Frankenmuth City-Township Commission  
Required Supplemental Information-Fire Fund  
Budgetary Comparison Schedule  
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Revenues</b>				
City of Frankenmuth	\$ 84,191	\$ 84,191	\$ 84,191	\$ -
Township of Frankenmuth	28,509	28,509	28,509	-
Township of Tuscola	3,500	3,500	3,400	(100)
Interest	700	700	3,252	2,552
Donations	-	-	28,458	28,458
Total Revenues	<u>116,900</u>	<u>116,900</u>	<u>147,810</u>	<u>30,910</u>
<b>Expenditures</b>				
Wages and payroll taxes	22,650	22,650	22,445	(205)
Operating supplies	2,500	3,000	7,420	4,420
Insurance	16,950	16,950	14,005	(2,945)
Repair and maintenance	17,000	24,000	24,623	623
Gas and oil	1,500	1,500	1,429	(71)
Capital outlay	31,000	45,600	40,086	(5,514)
Dues and subscriptions	500	1,050	1,032	(18)
Training and education	3,000	3,000	1,961	(1,039)
Transportation	100	100	-	(100)
Outside services	1,000	1,000	885	(115)
Other	4,400	4,500	2,912	(1,588)
Firemen physicals	2,000	2,000	1,282	(718)
Re-certification	1,800	1,800	575	(1,225)
Pager rental	3,500	3,500	2,964	(536)
Professional services	18,000	18,000	18,000	-
Total Expenditures	<u>125,900</u>	<u>148,650</u>	<u>139,619</u>	<u>(9,031)</u>
Excess (deficiency) of revenues over expenditures	(9,000)	(31,750)	8,191	39,941
Fund balance, beginning	142,201	142,201	142,201	-
Fund balance, ending	<u>\$ 133,201</u>	<u>\$ 110,451</u>	<u>\$ 150,392</u>	<u>\$ 39,941</u>

See accompanying notes to financial statements.

## OTHER SUPPLEMENTAL INFORMATION

Frankenmuth City-Township Commission  
Cemetery Fund  
Statement of Revenues, Expenditures and  
Changes in Fund Balance-Budget and Actual  
For the Year Ended December 31, 2005

	Budget	Actual	Over (Under) Budget
Revenues			
City of Frankenmuth	\$ 2,316	\$ 2,316	\$ -
Township of Frankenmuth	784	784	-
Interest	400	1,319	919
Total Revenues	<u>3,500</u>	<u>4,419</u>	<u>919</u>
Expenditures			
Wages and payroll taxes	2,700	1,891	(809)
Repair and maintenance	400	236	(164)
Equipment rental	300	255	(45)
Other	100	-	(100)
Total Expenditures	<u>3,500</u>	<u>2,382</u>	<u>(1,118)</u>
Excess (deficiency) of revenues over expenditures	-	2,037	2,037
Fund balance, beginning	37,353	37,353	-
Fund balance, ending	<u>\$ 37,353</u>	<u>\$ 39,390</u>	<u>\$ 2,037</u>

See accompanying notes to financial statements.